

MEETINGS OF THE NBS BANK BOARD

The 21st Meeting of the Bank Board of the National Bank of Slovakia was held on 12 November 2004, chaired by Marian Jusko, Governor.

- The Bank Board of the NBS approved the Decree of the National Bank of Slovakia stipulating the due form of application for a licence to establish a bank or a foreign bank to operate as a bank through its branch office in the Slovak Republic.

The Decree provides for the conditions for establishing a bank in the Slovak Republic, both for the entities from the EU member states and for the entities from the third countries. It also stipulates the conditions for establishing a branch office of a foreign bank for a bank with a registered address in the third country, while fully respecting a single licence system for establishing a branch office of a foreign bank in the EU states by its mother bank with a registered address in the EU member state. According to this Decree, a foreign bank, which will operate as a bank in the Slovak Republic through its branch offices pursuant to Article 11 of the Act on banks, will not submit application for a licence.

- The Bank Board of the NBS approved Annex No 1 to the Memorandum of Understanding between the National Bank of Slovakia and the Ministry of Interior of the Slovak Republic: Headquarters of the Police Force.

This Annex extends the cooperation between the parties, including sharing of the information necessary for revealing the unlawful financial operations and the financing of terrorism, as well as the measures adopted in regard of the breaching of relevant regulations in these areas by banks, branch offices of foreign banks and their staff.

- The Bank Board of the NBS discussed and approved the Interim Financial Statement and a Report on the Result of Operation of the NBS as at 30 September 2004.

- The Bank Board of the NBS reported a loss in the amount of SKK 13.4 billion as at 30 September 2004. The loss resulted in particular from the development of the exchange rate of domestic currency vis-à-vis the EUR and the USD respectively.

- The Bank Board of the NBS approved a notification on the issue of a commemorative gold coin with denomination of SKK 5 000 with the theme "UNESCO World Heritage - Bardejov, Town Conservation Reserve".

The commemorative coin is the fourth gold coin of the UNESCO World Heritage cycle. It is minted of alloy containing 900 parts of gold, 75 parts of silver and 25 parts of copper. The coin has weight of 9.5 g and diameter of 26 mm. The designer is Milan Virčík. The commemora-

tive gold coins have been minted to the number of 6 300 pieces by the Polish State Mint and they will be on sale before Christmas. The National Bank of Slovakia issued a commemorative silver coin with the same theme, with denomination of SKK 200, at the end of August this year.

The 22nd Meeting of the Bank Board of the National Bank of Slovakia, chaired by Marian Jusko, Governor, was held on 26 November 2004.

- The Bank Board of the NBS discussed the Situation Report on the Monetary Development of Slovakia in October 2004 and decided on changing its interest rates with effect from 29 November 2004; i.e. the overnight sterilization rate to 2.50 %, the overnight refinancing rate to 5.50 % and the limit rate for two-week repo tenders with commercial banks to 4.00 %.

- The Bank Board of the NBS approved the Decree of the NBS on submission of reports by banks and branches of foreign banks for statistical purposes.

The Bank Board of the NBS discussed and approved the draft Decree of the NBS amending the NBS Decree No. 4/2004 on adequacy of banks' own funds of financing.

The issue of this Decree is needed in order to regulate the calculation of own funds of banks, which may also be a part of a financial conglomerate. This regulation relates to the calculation of own funds of a financial conglomerate, which calculation is stipulated by a separate NBS Decree. The new Decree harmonizes its terminology and contents with the current provisions on own funds of banks and the prepared NBS Decree on risk management and Decree on a prior approval to use own models of market risk calculation. It also takes into account the operation of the Debt Securities Benchmark System by the NBS. The new Decree will become effective on 1 January 2005.

- The Bank Board of the NBS discussed and approved the draft Decree of the NBS on own funds and large exposures of a financial conglomerate.

The new Decree is based on the last amendment to the Act on banks, which amendment establishes supplementary supervision of financial conglomerates composed of entities operating in different sectors of financial markets. The purpose of this Decree is to lay down a detailed specification of own funds and large exposures of a financial conglomerate, and so facilitate supervision of prudential conduct of business of such groups, in particular in view of their solvency and limiting risk concentration.

The Decree is prepared in harmony with Directive 2002/87/EC on the supplementary supervision of financi-



al conglomerates. The Decree will become effective on 1 January 2005.

- The Bank Board of the NBS discussed and approved the draft Decree of the NBS stipulating the requisites of an application of a bank or a foreign bank for a prior approval by the National Bank of Slovakia to use own models of market risk calculation.

This Decree allows banks to use the so-called own models for the calculation of the value of market risk for the purposes of meeting obligations from the regulation of adequacy of own funds under NBS Decree No. 4/2004 on adequacy of banks' own funds of financing. Unlike the rules for the calculation of the value of market risk stipulated in the mentioned Decree, the own models of market risk calculation represent a tool which can be only partially standardized. There is, thus, certain room for a bank or a branch of a foreign bank to design its own model of a specific procedure for calculating the value of market risk. Its use for regulatory purposes, however, is subject to approval by the National Bank of Slovakia.

Requisites of the application for using own models of market risk calculation for regulatory purposes are involved in the Decree. The Decree will become effective on 1 January 2005.

- The Bank Board of the NBS discussed and approved the draft Decree of the NBS stipulating contents of an extended auditor's report on audit of banks and branches of foreign banks.

The Decree, which obligates banks and branches of foreign banks to submit to the Banking Supervision of the NBS the extended auditor's report, follows new regulati-

on both of book-keeping in banks and branches of foreign banks, including their framework chart of accounts, and of audit of final accounts of banks and branches of foreign banks. It is also based on experience with the implementation of the previous NBS Decree which stipulated the submission of the mentioned auditor's report. The Decree will become effective on 1 January 2005.

- The Bank Board of the NBS discussed and approved the draft Decree of the NBS on risks and the risk management system.

The issue of this Decree is needed to harmonize, in terms of terminology and contents, provisions on risk management procedures in banks and branches of foreign banks. Owing to its nature, this Decree represents a basis for the further stipulation of prudential rules and the use of risk definitions in other NBS regulations in the area of prudential conduct of business of banks and branches of foreign banks. The Decree will become effective on 1 January 2005.

- The Bank Board of the NBS discussed and approved the draft Decree of the NBS on classification of assets and liabilities of banks and branches of foreign banks, their revaluation, formation and dissolution of reserves, and related reporting.

The Decree lays down the new way of revaluation of assets through the establishment of a portfolio of claims on the basis of homogeneous characteristics and through the creation of portfolio provisions for the established portfolios. It also allows banks to create provisions in accordance with the IAS rules. The Decree will become effective on 1 January 2005.

Rationale behind the decision of the Bank Board of the NBS on interest rates

The Bank Board of the NBS discussed, at its 22nd meeting held on 26 November 2004, the Situation Report on Monetary Development of Slovakia in October 2004. The Bank Board concluded that, as compared with the previous month, neither the economic development nor its updated projections have substantially changed. The current development of inflation has been in accordance with the NBS's expectations and its prediction for the end of the year is in the programmed interval of the NBS's Updated Monetary Programme. The real-economy development indicators suggest that the economic performance of the previous quarters will also be preserved in the third quarter of 2004. The growing trend of the cumulative deficit of the trade balance has continued. The Slovak koruna exchange rate has gradually appreciated since October. If the appreciation tendency of the Slovak koruna continued, it could, in a short time, exceed the level justified by the development of economic indicators and jeopardize the economic balance.

Having considered the current and particularly the expected inflation development, the Bank Board of the NBS decided on cutting its key interest rates by 0.5 percentage points. Room for the decrease in interest rates has been created particularly in view of the expected substantial decrease in inflation in the next year, when there fades out the influence of administrative adjustments to prices. This influence has determined approximately 70 % of the price growth in this year. When changing the monetary policy setting, the Bank Board of the NBS also took into account the accelerated and extensive rate of Slovak koruna appreciation as compared with the development in economic fundamentals.

When deciding on interest rates, the Bank Board of the NBS considered the following factors:

The level of consumer prices has in general stagnated. After a slight decrease in August, prices did not change either in September or October. As to the internal structure, the highest pace of growth in October was showed in prices of regulated goods, due to the continued growth of prices for services in the area of education and school catering. As compared with September, tradable goods



prices also went up as a result of an increase in fuel prices and a seasonal increase in prices for clothing and footwear. On the contrary, prices of foodstuffs, in particular those unprocessed, again decreased on a month-on-month basis. The year-on-year inflation rate went down when compared with September, as did core inflation. Until the end of the year the price development should be influenced both by stagnation in the year-on-year rate of growth of foodstuff prices and by an increase in selected regulated prices. Uncertainty as to the further price development in the months to come is fuelled by fuel prices. The growth of market services will remain highly dynamic until the end of the year as a result of a decisive impact of cost factors. Though, the part of prices for services which reflects demand impulses should further show a downward tendency. Tradable goods without fuels should represent a segment with the lowest pace of growth in prices. The year-end outlook for headline and core inflation has remained in the programmed interval. In the next year, the impact of cost factors on inflation will minimize, owing to which the inflation rate will decrease to levels approaching those of core inflation.

The trade balance development in September contributed to the further widening of the cumulative 12-month deficit of trade balance. In October, owing to the increased supply before Christmas, the higher growth in import than in export can be expected. Risk posed on the trade balance development continues owing to the development in prices for power-producing raw materials. The continued appreciation of the Slovak koruna could in the long run adversely reflect itself in the external trade development. The excessive appreciation places exporters at a disadvantage and concurrently motivates the increased consumer imports, thus posing a risk on the trade balan-

ce development. Such an imbalance could precipitate corrections depreciating the exchange rate of the currency, which could adversely influence the inflation development in the medium term.

The Slovak koruna exchange rate, after stagnation in September, slightly appreciated in October, and the pace of its appreciation has accelerated in November. The cumulative rate of the exchange-rate nominal appreciation since the beginning of the year is 4.5 %, while the Slovak koruna exchange rate has strengthened by 1.9 % since the beginning of October. This development is not in accordance with the economic fundamentals development, and occurs in the context of the deteriorating trade balance of Slovakia. The continued appreciation trend could extend the external imbalance. The NBS considers the stable development of the koruna exchange rate as one of the important attributes of the healthy economic environment inevitable for the economic growth. As this pace of strengthening in the exchange rate is not supported by the economic fundamentals development, it is reasonable to expect that it results from the positive interest differential and the inflow of short-term capital.

The National Bank of Slovakia expects the growth rate of prices to decrease at the beginning of 2005. Based on the current and expected positive development of inflation and on the imbalanced development of the koruna exchange rate, which is not backed by the economic fundamentals development, the Bank Board of the NBS decided on cutting its interest rates by 0.5 percentage points. The decrease in interest rates will lead to a decrease in the interest differential, which differential has also motivated the short-term investments in the Slovak koruna and pressed for the appreciation of its exchange rate.

Press Department of the OVI NBS

PRESS REPORTS

A Meeting with the Governor of the NBS

The governor of the NBS Marián Jusko met representatives of the Association of Air Veterans of the Slovak National Uprising and the Struggle in Exile and the Slovak Airmen's Union of General Dr. Milan Rastislav Štefánik in the headquarters of the National Bank of Slovakia in Bratislava.

On the occasion of the sixtieth anniversary of the Slovak National Uprising and the end of the Second World War, the chairman of the Association of Air Veterans of the Slovak National Uprising and the Struggle in Exile Colonel Vladimír Švárný gave the governor of the NBS Marián Jusko and the chief executive director of the Executive Division of the NBS Štefan Králik the honorary airman's medals with the serial numbers 1 and 2.



Photo: Ivan Paška



Technical Assistance from the National Bank of Slovakia to the Central Bank of Albania

In connection with the provision of the foreign technical assistance by the National Bank of Slovakia, the Institute of Banking Education reacted to the request of the Central Bank of Albania to organize training on statistical reporting and its harmonization with the requirements of the ECB and Eurostat in the area of banking and currency statistics and balance of payments statistics.

The training was directed towards specific statistical topics defined in the Bank of Albania Medium-Term Development Plan for the period 2003 – 2005.

The presented themes „The Slovak Approach to the Harmonization of the Operations of the NBS with the Requirements of the ECB and Other Financial Institutions“ in combination with expert consultations for selected managers and specialists from the Albanian central bank were coordinated by members of the management staff of the NBS: Ing. Gregor Bajtay, Ing. Brziaková and Ing. Ivan Vodička. The demanding programme containing the specified topics required considerable work and a high level of expert knowledge, practical experience and linguistic skill from the teachers.

The training took place from 19th to 22nd September 2004. The participants were informed in detail about the aspects, approaches and demands of a legal character in the area of statistics in the conditions of the NBS and the Slovak Republic, and with the activities of individual sections of the Statistics Department and its position in the fra-

mework of the organizational structure of the NBS. The training also enabled the participants to learn about the harmonization of currency and banking statistics with the requirements of the ECB and Eurostat, the approach of the ECB, the method of collecting data and communication of the NBS with banks by means of APS STATUS, as well as the method of sending statistical data from the NBS to the ECB and other international institutions.

The participants were also informed about the method and system of compiling balance of payments statistics, including the necessary sources of data, the requirements of Eurostat, the ECB and the IMF with regard to balance of payments data and the method of sending the data to Eurostat and the ECB.

As the concluding report sent to the Institute of Banking Education from the Central Bank of Albania shows, the participants highly appreciated the expert erudition of their teachers, combined with their many years of practical experience, which they developed and applied on the level of the NBS in the ESCB.

The Central Bank of Albania expressed active interest in cooperation with the NBS in the area of providing training in these areas.

By providing technical assistance in the form of the provision of specialist teachers, the NBS concretely presented its interest in participating in this area of international cooperation. The NBS will continue in the provision of this assistance in harmony with its capacities and the priorities of the foreign policy of the EU and Slovak Republic.

Ing. Dušan Garay, CSc.

The Tatra banka Prize for Art, 2004

The annual Tatra banka Prize for Art was awarded on 27th November 2004, in the Opera of the Slovak National Theatre. On the basis of the decision of a ten member expert jury of leading experts and personalities from social and artistic life, the 2004



prizes and financial grant of 150,000 Sk for contributions to Slovak art were awarded to (from the left on the picture) Alexandra Grusková for fine art, Matej Krén for the extraordinary creative act of the year „Pasáž“ and Ladislav Chudík for his whole life's work. An unpaid award in memoriam was awarded to the conductor Štefan Klima for an extraordinary life contributing to Slovak culture.

The traditional glass pyramid was presented to the laureates by Ing. Miroslav Uličný, the first deputy chairman of

the Board and deputy General Director of the Tatra banka, who said: “The Tatra banka is making a long-term effort to contribute to the development of Slovak art and raise its reputation at home and abroad. We believe that for the artistic public, this award is a synonym of the prestige and added value we are endeavouring to bring to cultural and social life in Slovakia.”

Alica Polónyiová



Notification from the Financial Market Authority

On 26th November 2004, the Financial Market Authority issued a preliminary measure giving the company CREDIT SUISSE LIFE & PENSIONS d.s.s. a.s. the obligation to stop without excessive delay and until the removal of deficiencies, the distribution of advertising and propagational materials for old age pension saving with the designation „Swiss Pension“ spread in green, yellow and blue envelopes with the logo of the Poštová banka a.s.

The Financial Market Authority has acquired the justified suspicion that the company CREDIT SUISSE LIFE & PENSIONS d.s.s. a.s. is violating the provisions of the act on old age pension saving concerning advertising activity, and so it is obliged by the preliminary measure to stop the distribution of advertising material. It is also obliged without

excessive delay to ensure that all persons or organizations involved in distributing the advertising material stop this activity. The Slovak Post Office and the Poštová banka (Post Office Bank) a.s., by means of which the advertising materials are distributed, were also informed about the preliminary measure. The preliminary measure is effective immediately, any appeal has no delaying effect. The advertising materials effected by the preliminary measure include: leaflets with the title „Švajčiarsky dôchodok“ (Swiss Pension), an agreement on the future contract for old age pension saving with the company, a contract on old age pension saving with the company, the statutes of the pension funds of the company, information on the prospects of the pension funds of the company and a sticky label with the slogan „My už máme švajčiarsky dôchodok“ (We already have a Swiss pension).

M. Kačmár

Declaration from the Company CREDIT SUISSE LIFE & PENSIONS d.s.s. a.s.

On 26th November 2004, the pension fund company CREDIT SUISSE LIFE & PENSIONS d.s.s. a.s. asked the Poštová banka a.s. to stop without delay the distribution of all advertising and propagational materials of the Poštová banka spread by means of the branches of the Slovak Post Office and the post delivery system. The pension fund company CREDIT SUISSE LIFE & PENSIONS d.s.s. a.s. also asked the Poštová banka a.s. to immediately stop the advertising campaign, in the framework of

which, the message is communicated on distributed envelopes of the Poštová banka. The pension fund company CREDIT SUISSE LIFE & PENSIONS d.s.s. a.s. is taking this step with regard for the interest of the company CREDIT SUISSE LIFE & PENSIONS d.s.s. a.s. in consistently respecting the provisions of Act no.43/2004 Z.z. on old age pension saving and on amending and supplementing several acts in accordance with later legal norms, as well as the valid implementation regulations setting the rules for advertising and propagational activity in the area of old age pension saving.

Eva Holíková

The Results of a Competition The Best Annual Report

This year's winner of the Best Annual Report Competition in the category of printed annual reports is the company Slovak Telecom a.s. of Bratislava, which also won in the category of electronic annual reports. The second and third prizes for printed reports went to B.O.F. a.s. of Bratislava and the Prvá stavebná sporiteľňa (First Building Society) a.s. of Bratislava. In the category of electronic annual reports, Železiarne Podbrezová (Podbrezová Ironworks) a.s. of Bratislava and Dexia banka Slovensko a.s.

of Žilina came second and third. The purpose of the competition is to raise the level of annual reports in both the evaluated forms. Annual reports are evaluated according to three criteria: The informedness of the people interested in the management of the company, the financial part of the annual reports and the communicative level of the annual reports. The electronic annual reports are also evaluated according to the coefficient of accessibility.

The organizers of the competition are INEKO, the weekly magazine Trend and the advertising agency SK – media.

B. Škoda

Restructuring of the Banking and Company Sector in the Slovak Republic

A conference was held with this title on 9th November 2004 in the Hotel Danube in Bratislava. Leading experts presented the views of important foreign and domestic institutions on the need, course and results of the restructuring of the banking and company sector in Slovakia. The conference was held under the patronage of the deputy

prime minister and minister of finance of Slovakia Ivan Mikloš, who gave an introduction. This included a positive evaluation of cooperation with the World Bank, which supported the restructuring process by granting an EFSAL loan. The World Bank was an organizer of the conference, in cooperation with the Nadácia Liberálna spoločnosť (Liberal Society Foundation).

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